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SUBJECT: BRAZILIAN NATIONAL OIL AGENCY WELCOMES US PARTNERSHIPS,
DISCUSSES NEXT STEPS IN SUSPENDED OIL ROUND

¶1. Summary: Ambassador Sobel met with Haroldo Lima, Director General Florival Rodrigues de Carvalho, General Manager of Planning and Research, and Durval Barrros, General Manager of Institutional Communication of the National Oil Agency (ANP) on February 15, 2008.

They discussed potential synergies in the areas of biofuels, research and development, and the regulation of oil exploration and production. Both parties agreed to use the upcoming American VIP visits as platforms to formalize partnerships in common areas of interest. ANP's Lima also outlined steps being taken to resume the next round of oil licensing.

BUILDING PARTNERSHIP THROUGH TECHNICAL EXCHANGES - ESPECIALLY ON BIOFUELS

¶2. Ambassador Sobel highlighted the November 2007 USTDA-sponsored technical orientation visit by Brazilian ANP gas specialists to the United States to learn about Liquefied Natural Gas (LNG) regulations and licenses. Given the similar challenges in pre-salt explorations between the Tupi Field and the Gulf of Mexico, Ambassador Sobel expressed his desire to see more technical exchanges.

¶3. Lima agreed that U.S. and Brazilian regulatory agencies have much in common, and there is room for further understanding and growth on the GOB's part. He also acknowledged problems with the regulatory aspects of oil, gas and biofuels. The Ambassador highlighted an opportunity to go beyond talks and to develop substantive deliverables under the U.S.-Brazil Biofuels MOU. He noted the new harmonized standard for biofuels as an important first step for creating new markets for biofuels exports globally.

¶4. Ambassador Sobel raised his recent meeting with GE president for Latin America, who said the co-generation aspect of biomass is more interesting than the fuel itself. Noting that the United States spends billions in loan guarantees to fund R&D projects to commercialize the next generation of biofuels, he asked if there were any Brazilian R&D projects that the U.S. could support. He mentioned this could be the subject of an agreement signed by the Foreign Minister and the Secretary.

¶5. Carvalho highlighted new studies on using sugarcane by-products and enzymes and the possible conversion of paper pulp into alcohol. Other studies are exploring the use of different raw materials from oil plants. The U.S. is studying how to use micro-algae to develop biofuels. Barrros added ANP specialized in regulating biofuels based on sugar cane, but that new studies were underway on how to use sugarcane by-products such as straw and gas to also generate ethanol and reduce waste. He said that enzyme and cellulosic

conversion processes were of high interest to ANP, and that these could be good areas of cooperation between Brazil and the United States.

OIL LICENSING ROUNDS

¶7. With regard to oil regulation, Lima called the existing model evolving. There are new fields being discovered, including in the pre-salt area with high potential and low exploratory risk. He said the pre-salt formation is more than 800km long and up to 200km wide in ultra-deep waters. This area has similarities to the Gulf of Mexico and the North Sea.

¶8. The Ambassador asked when the ninth round of oil licensing might be completed. Lima explained that the ninth round of oil negotiations was abruptly halted one month before its conclusion when Petrobras discovered the Tupi oil field. In a ministerial meeting chaired by President Lula, the GOB decided to remove 41 blocks from the bidding process in order to examine next steps in regulating exploration and production given the size of the discovered field. ANP requested help from the U.S. in creating a regulatory paradigm to develop concession contract models.

¶9. Lima underlined the need for expediency in formulating regulations, given that the need to resume bidding for the unfinished eighth round that was partially suspended and the new, 10th round, which could include the 41 blocks which were removed. He also emphasized that ANP was interested in learning about royalty payment collections in the United States, especially given the increase to 12-16 percent in collections from companies exploring for oil in the Gulf of Mexico. Additional revenues would strengthen ANP as an agency and would be a key role in their administration of the future blocks up for auction in upcoming licensing rounds. In

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other words, ANP is looking to create a new E&P paradigm. In this regard, US technical assistance would be much appreciated.

¶10. Ambassador Sobel offered to help facilitate technical exchanges through either USTDA or directly through ANP's counterparts in the United States (e.g. through the US Minerals and Management Service - MMS) to get experts to advise on oil and gas royalty concession concepts to maintain transparency in the oil field licensing process. The Ambassador reiterated the importance of a partnership, where both countries would learn from each other.

¶11. Lima agreed that the United States and Brazil have common interests in the regulation of high-potential oil and gas basins that have low exploratory risk. Although he acknowledged that the GOB urgently needs to develop a contract model in the second half of 2008, Lima urged a multi-faceted expertise exchange, one that includes biofuels regulations as well.

¶12. Lima noted that ANP also needs to finesse its plans for a better regulatory approach. He mentioned an upcoming tender for bids to select a consulting company to propose a regulatory framework for high potential areas with low exploratory risk (e.g. pre-salt) as an excellent opportunity for collaboration.

¶13. This message was cleared/coordinated with Embassy Brasilia.

MARTINEZ